

G-007/M-88-259 APPROVING CONSERVATION IMPROVEMENT PROGRAM AND
REQUIRING ADDITIONAL FILINGS

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Implementation of an Energy Conservation Improvement Program for Northern Minnesota Utilities, a Division of UtiliCorp United, Inc.

ISSUE DATE: September 29, 1988

DOCKET NO. G-007/M-88-259

ORDER APPROVING CONSERVATION
IMPROVEMENT PROGRAM AND
REQUIRING ADDITIONAL FILINGS

PROCEDURAL HISTORY

On May 2, 1988 Northern Minnesota Utilities (NMU or the Company) made its 1988 Conservation Improvement Program (CIP) filing under Minn. Stat. 216B.241 (1986) and Minn. Rules, part 7840.0200 et seq. On May 20, 1988 the Commission issued its ORDER CONDITIONALLY ACCEPTING NORTHERN MINNESOTA UTILITIES' 1988 ANNUAL CIP FILING. That Order required the correction of certain deficiencies in the filing and requested additional information. On June 6, 1988 the Company made a supplementary filing meeting the requirements of that Order.

The Department of Public Service (the Department) examined the filing and submitted detailed comments on June 28, 1988. The Department recommended modifications to one project and advocated approval of the filing in general. The Company made some modifications to its proposal in response to the Department's comments.

On May 27, 1988 the Crosby-Ironton-Deerwood Energy Commission, a consortium of three Minnesota cities, filed comments proposing an additional project, to be administered by the consortium. The consortium and the Company later reached an agreement that the additional project would be funded as of January 1, 1989.

The matter came before the Commission on August 18, 1988. Having reviewed the entire record herein and having considered the comments of all parties, the Commission makes the following findings and conclusions.

FINDINGS AND CONCLUSIONS

SUMMARY OF COMPANY'S PROPOSED PROGRAM

The Company's proposed program consists of three projects, which are described below.

RESIDENTIAL CONSERVATION SERVICE PROJECT

This is a continuation of the federally mandated project. The project is open to all residential customers living in one to four unit buildings or in larger buildings where living units have individual gas meters. The project consists of a comprehensive energy audit performed for a \$10 fee by a state-certified energy auditor employed by NMU.

The auditor visits the customer's home, examines the structure, determines the customer's energy use patterns, and provides an analysis of the household's conservation potential. This analysis addresses all conservation measures the household could undertake, e.g., major weatherization, caulking and weatherstripping, thermostat control, and includes recommendations on which measures would be most practical for that particular household.

This will be the third year the audit has been offered. At the completion of this year's project, in June of 1989, the audit will have been offered to every eligible customer. The Company expects this year's project to serve 270 households, of which approximately 5% will be renters and 10% will be low income. Fuel savings of approximately 9.5% per participating household are projected. The proposed budget is \$45,078.

FURNACE TUNE-UP PROJECT

This, too, is a continuation of an existing project. In this project the Company plans to offer residential customers a furnace or boiler tune-up and cleaning for \$5.00. Services will be provided by any participating heating dealer or an NMU employee, at the customer's option. The offer will reach all residential customers over the next two years.

The Company anticipates a 30% response rate, or 4,882 participants. Approximately 15% of participating households are expected to be low income and approximately 10% are expected to be renters. Heating bill reductions are projected to average 5% per participating household. The proposed budget is \$99,640.

CONSERVATION GRANT PROGRAM PROJECT

This a continuation of an existing five-year project, under which NMU spends approximately \$50,000 per year to weatherize the homes of low income customers. Services are provided by non-

profit organizations under contract with NMU. The following non-profit organizations are eligible to provide services under the project: Arrowhead Economic Opportunity Agency, Lakes and Pines Community Action Council, Inc., Inter County Community Council, Otter Tail-Wadena Community Action Council, Northwest Community Action Agency, Kooch Itasca Action Council, and Tri County Community Action Council. Of these, only the first four have participated in the project to date; the Company is encouraging participation by the others.

This project provides grants of up to \$1,000 per household to deliver comprehensive weatherization services. Services offered include attic insulation, wall insulation, foundation insulation, rim joist insulation, floor insulation, caulking and weatherstripping, replacement of storm doors and storm windows, and duct and pipe insulation. If the \$1,000 grant is insufficient to adequately weatherize a participating home, the non-profit organization locates additional funding from complementary programs.

Data from the first two years of the project indicate average savings of 9.8 Mcf per participant. The Company anticipates serving 67 customers this CIP year, all of them low income, approximately 15% of them renters. This year's budget is set at \$59,000.

COMMISSION ACTION ON PROPOSED PROGRAM

THE PROGRAM'S GENERAL ADEQUACY

The Commission finds that the Company's program, taken as a whole, fulfills the requirements of Minn. Stat. 216B.241 (1986). The program evinces a serious effort to address the conservation needs of the Company's customers in a comprehensive manner. It fulfills the statutory requirement that the Company make a significant investment in and expenditure for conservation improvements.

The program is geographically balanced, providing services to residential customers throughout the Company's service area. It provides an adequate range of services, including energy audits, furnace tune-ups and cleanings, and major weatherization services. It will deliver services of immediate practical benefit to large numbers of people. It is expected to have high participation rates, especially in the Furnace Tune-up Project, where 30% of the Company's customers are expected to participate. Such widespread customer participation should increase conservation awareness in the Company's service area. All this is in keeping with the comprehensive conservation effort envisioned by the CIP statute.

The program is limited to residential customers. This is an issue on which the Commission has expressed concern in the past, and one which may require action in future CIP years. For the present, however, the Commission will not require the Company to develop a commercial or industrial project, believing the Company is making adequate progress toward a comprehensive program on its own.

The proposed budget amount of \$203,740 (adjusted slightly downward herein) represents approximately 0.65% of the Company's annual operating revenues. The program will serve

approximately 5,119 households, and is projected to serve over 30% of the Company's customers during the coming two-year period. Considering the program as a whole, the Commission concludes that it is appropriate and that it represents a significant investment and expenditure on the part of the Company.

CONSIDERATION FOR NEEDS OF RENTERS AND LOW INCOME PEOPLE

The program fulfills the statutory requirement of showing special consideration for the needs of renters and low income people. One project, the Conservation Grant Project, limits participation to low income people. Data submitted by the Company suggests that the other two projects will also attract and serve low income and rental households. Approximately 10% of Residential Conservation Service Project participants are expected to be low income customers, and 5% are expected to be renters. For the Furnace Tune-up Project the corresponding figures are expected to be 15% and 10%.

COST EFFECTIVENESS

The statute requires that, to the extent possible, the conservation improvements funded by the Company be cost effective. The statute speaks of cost effectiveness in terms of the cost of conservation improvements not exceeding the cost of producing or purchasing the amount of energy saved. Nevertheless, the statute requires the Commission to ensure that utilities with annual revenues exceeding \$50,000,000 make significant investments in and expenditures for conservation improvements, even if the level of cost effectiveness discussed above cannot be attained.

Cost effectiveness analysis for demand-side programs is an evolving area of utility regulation. The Commission, the Department of Public Service, the CIP utilities, and other parties have been engaged in studies and discussions on the issue since the CIP program began. It would be premature at this point to attempt a definitive analysis of the cost effectiveness of this year's program.

The Commission is convinced, however, that the program is cost effective under existing standards. No party challenged the cost effectiveness of the program taken as a whole. Furthermore, the Commission agrees with parties who have pointed out in the past that CIP projects produce many benefits which are not factored into traditional cost effectiveness analyses. These include more comfortable living and working environments, ecological benefits, infusion into the local economy of dollars which would otherwise have been spent on energy, potential for long term price stability resulting from limited need for new supplies, and data on usage patterns and conservation potential derived from conservation projects.

Considering both traditional cost effectiveness measures and the considerations set forth above, the Commission concludes that the Company's program complies with appropriate and prevailing cost effectiveness standards.

CROSBY-IRONTON-DEERWOOD PROPOSAL

As noted previously, the Crosby-Ironton-Deerwood Energy Commission proposed to administer a CIP project in those three cities, and the Company tentatively agreed to fund the project as of January 1, 1989. The proposed project would offer a service called the Home Energy Check-up, an abbreviated version of the Residential Conservation Service home energy audit.

The Commission finds that the Home Energy Check-up has proven popular and effective in many communities and that the proposed project merits consideration. The current filing does not provide enough detail for the Commission to act on the project proposal. The Commission will therefore require a further filing containing the information set forth at Minn. Rules, part 7840.0500, to facilitate Commission consideration of the project. That filing should also address whether the project could or should be coordinated with Minnesota Power's Community Energy Council Project to help defray administrative expenses.

ACCOUNTING TREATMENT AND COST RECOVERY

In its filing NMU requested that it be allowed to add a carrying charge to its deferred debit account for CIP expenditures. The Commission finds that any change in the cost recovery procedures authorized in the Company's last general rate case merit consideration in a separate proceeding, if not in another general rate case. The Company should make a separate filing dealing solely with such issues if it wishes to bring the matter before the Commission.

OTHER MODIFICATIONS TO COMPANY'S PROPOSAL

CIP Year to be Basis for Future Filings -- The Company's filing was based on the calendar year, not the CIP year, which runs from October 1 to September 30, with an annual filing on May 1. The Company subsequently agreed that the 1988 calendar year budget could be used as the CIP year budget, however, since NMU expected no increase in CIP expenditures for the 1989 calendar year. The Commission will require future CIP filings to be based on the CIP year, to ensure that the Commission reviews and approves proposed projects prior to their implementation.

Clarification of RCS Budget Items -- The Company's description of the Residential Conservation Service project raised questions which must be addressed in a subsequent filing. It is unclear what is included under the "Material and Service" portion of the project's budget, and it is unclear why that portion of the budget is significantly lower than it was last year. It is also important for the Company to specify what "training" it proposes to fund in 1988.

End-use Inefficiency Data -- The Department noted, and the Commission agrees, that NMU needs to develop reliable and comprehensive end-use inefficiency data for use in its conservation planning process. Such data would allow the Company to increase the effectiveness of its conservation efforts and to identify potential means for saving energy among its commercial and industrial customers. The Commission will require the Company to work with the Department on these issues and to submit a report including such data with its 1989-90 CIP filing.

Administrative Expenses in Furnace Tune-up Project -- In the Company's filing it budgeted 26% of its total expenditure for the Furnace Tune-up Project for program administration. The Company stated this was an estimate, since the project is new. The Commission appreciates the difficulty of estimating expenses for new projects, but notes that administrative costs for this project to date average only 18%. Furthermore, the Commission has consistently required CIP utilities to make every reasonable effort to keep administrative expenses as low as possible. The Commission will therefore lower the amount budgeted for administrative expenses to 20%, allowing 2% more than average for unforeseen expenses.

Conservation Grant Program Budget Items -- The Company's budget for the Conservation Grant Program allocated \$3,000 for administration, \$6,000 for operation, and \$50,000 for conservation improvements. The project was expected to serve 67 customers. The Commission will re-allocate those amounts as follows, to increase the number of customers served to 70: \$2,543 for administration, \$5,086 for operation, and \$51,371 for conservation improvements. These amounts correspond more closely with last year's allocations, which were not cited as a problem in the

Company's status report on the project.

Data on Low Income Customer Participation -- The Department noted that the Company does not have precise information on the number of low income customers and renters its program serves, because, except in the Conservation Grant Program, it does not request that information from program participants. The Company agreed to request rental status information from all CIP participants but objected to requesting income information on grounds that it violates customers' privacy and might inhibit participation in the program.

The Commission respects the Company's concerns and agrees that it is unnecessary to request income information when customers apply for projects which do not contain a means test. Since the statute requires the Commission to give special consideration to low income people, however, the Commission needs accurate information on the number of low income customers the Company's projects serve. The Commission will therefore require that the Company conduct random sample surveys of CIP participants to determine as accurately as possible what percentage of them are low income customers. This information should be included in future status reports and evaluations.

Cost Effectiveness Studies to Continue -- The Commission continues to encourage and require the Company to work with the Department and other interested parties in developing and refining analytical techniques for measuring the cost effectiveness of CIP projects and programs.

ORDER

1. The Commission approves the Company's CIP proposal, as modified herein. The approved plan consists of the following projects funded at the levels indicated:

Residential Conservation Service Project	\$45,100
Furnace Tune-up Project	\$93,740
Conservation Grant Program Project	\$59,000
 TOTAL BUDGET	 \$197,840

2. The Company shall incorporate into its Furnace Tune-up Project the modifications ordered herein.
3. Within 15 days of the date of this Order the Company shall file information clarifying what costs are included under the "Material and Service" portion of the Residential Conservation Service budget, shall explain why that section of the this year's budget is significantly lower than it was last year, and shall describe the training it proposes to fund from this year's budget.
4. Within 60 days of the date of this Order the Company and/or the Crosby-Ironton-Deerwood Energy Commission shall file a project proposal meeting the requirements of Minn. Rules, part 7840.0500 for the Home Energy Check-up Project. That filing should also address the feasibility and desirability of coordinating that project with Minnesota Power's Community

Energy Council Project to reduce administrative expenses.

5. The Company shall adjust its budget for the Furnace Tune-up Project to reflect the reduction in administrative expenses required herein.
6. The Company shall adjust the components of the Conservation Grant Program Project budget to reflect the adjustments made herein.
7. The Company shall conduct random sample surveys of CIP project participants to determine the percentage of low income participants and shall include the results of such surveys in future status reports and evaluations.
8. The Company shall work with the Department to develop reliable and comprehensive end-use inefficiency data for use in its conservation planning process and shall file a report including such data with its 1989-90 CIP filing.
9. The Company shall base future CIP filings on the CIP year, not the calendar year.
10. To the maximum extent practicable the Company shall ensure that all CIP participants have free choice of the devices, methods, materials, sellers, installers, and contractors used in making conservation improvements to their property.

11. The Company shall continue to work with the Department in the development of cost effectiveness analyses for gas utilities. Both parties shall continue to submit cost effectiveness analyses and accompanying explanatory notes for proposed CIP projects.
12. Parties shall have 15 days from the date of filing to comment on any filing required hereunder.
13. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)